



DATE: January 14, 2002

TO: All County Superintendents of Schools
District Superintendents of Schools
Community College Districts and
Other Employing agencies

FROM: EXECUTIVE OFFICE

SUBJECT: Employer Directive 2002-02
Implementation of Employer Pick-Up of Member Contributions
For Voluntary Receivable Payments
Supercedes Administrative Directive 95-04

PURPOSE

The purpose of this employer directive is to inform employers of the procedures required to implement the provisions of employer pick-up, or tax deferral, of voluntary receivable payments, i.e., the purchase of permissive service and redeposits, under Internal Revenue Code Section 414 (h) (2).

SCOPE

The procedures described in this directive apply to all employers of California State Teachers' Retirement System (CalSTRS) members who elect to defer taxes on payroll deduction payments for voluntary receivables and clarify the role of the employers responsible for reporting and remitting these payments to CalSTRS.

For the purpose of this directive, the term employer is used interchangeably to mean a county or a District Office of Education. At the discretion of the County Office of Education, a District Office may submit the Payroll Deduction Personal Computer (PC) Report and remittance directly to CalSTRS within the specified time parameters. Coordination between the County Office and the District will be left to their discretion.

DISCUSSION

The Internal Revenue Service (IRS) has ruled that CalSTRS members may elect to have their payments for voluntary receivables, i.e., purchase of permissive service and redeposits, qualify as tax deferred payments if certain conditions are met:

- The employer must adopt a resolution making tax deferred installment payments for voluntary receivables through payroll deduction available. If the resolution is adopted, non-tax deferred installment payments for voluntary receivables will no longer be permitted through payroll deduction. Members wishing non-tax deferred installment payments must make direct payment to CalSTRS.
- The member must agree to and sign an Irrevocable Payroll Authorization (CalSTRS Form AC-0194 – Attachment 1) for the voluntary receivable.
- The member may not make direct payments to CalSTRS after the member has agreed to the irrevocable payroll authorization.
- The member may not terminate the irrevocable payroll authorization before completion of the payments or termination of employment.
- If deductions become delinquent because of termination of employment, CalSTRS will return all tax deferred amounts to the employer who, in turn, must return them to the member as taxable income. Because termination of employment automatically cancels the irrevocable payroll authorization, a terminated member may avoid delinquency by making direct payments in lump sum, monthly installments or by payroll deductions from a subsequent employer within 30 days.
- A member who elects to make payment of a voluntary receivable through tax deferred payroll deduction will have their taxable income reduced by the amount of the tax deferred deductions, in the same manner that the tax deferred contributions to CalSTRS reduces their taxable income.

NOTE: The tax deferral is not applicable to any mandatory deductions CalSTRS may have instructed an employer to make in accordance with Education Code Section 22459.

ACTION

To utilize these provisions, the Governing Board of the School District or Community College District, County Board of Education, County Superintendent of Education or other employing agency must formally adopt without change the model resolution as approved by the IRS. The original copy of the resolution must be sent to CalSTRS, directed to the attention of the Accounting Receivables Unit. A copy is to be maintained in the employer's office.

Once the resolution is adopted, the employer may only take payroll deductions for a voluntary receivable for which both the member and the employer have signed the irrevocable payroll authorization (CalSTRS Form AC 0194). Copies of the irrevocable payroll authorization are to be maintained in the employer's office and shall be made available upon request.

Effective Date

The effective date for commencement of tax deferred voluntary receivables cannot be any earlier than the date the resolution is signed and put into effect or July 1, 1995, whichever is later. In addition, the effective date for individual member tax deferred deductions cannot be any earlier than the effective date of the resolution and the date the irrevocable payroll authorization is signed by both the employer and the member.

Adoption of the resolution and the reporting of payments are two separate items. All tax deferred payroll deduction payments must be reported and paid to CalSTRS in the time frame and manner prescribed by the Teachers' Retirement Board. Tax deferred voluntary receivable payments cannot be reported on the regular monthly contribution report (F-496).

Processing Requirements – Both Tax Deferred and Non-Tax Deferred

If an employer adopts the resolution to permit tax deferred payroll deduction payments, the Tax Deferred Installation Program can be obtained from the CalSTRS web site, www.calstrs.ca.gov. The Tax Deferred Program is now part of the CalSTRS Employer Application Suite. The program can be used with all versions of Windows. (Appendix A)

The tax deferred software will provide directions for installing the program and will also prompt the user on how to use the program. Upon installation of the PC program, the employer will have the database containing the detail for all their employees currently electing payroll deduction. The employer will be responsible for maintaining the accuracy of the detail entered into the database. The employer will maintain the database by adding, editing or deleting detail as needed. The detail will consist of the employee's full name, Social Security Number, CalSTRS' receivable type code, dollar amount of the monthly deduction and tax deferred status indicator. The information needed to establish new deductions is located on the initial billing letter or payroll deduction recalculation letter sent to the member from CalSTRS. The member must bring the letter to the employer when requesting to have payroll deduction established. Only the amounts on these documents will be accepted as valid. Any differences noted will result in immediate contact from CalSTRS, and corrections must be made. The employer will be able to print a hard copy report of the employee detail and the total amount of deductions withheld.

Within fifteen days immediately following the period covered by the Payroll Deduction PC Report, the employer will submit the most current copy of the database on a diskette, a hard copy printout of the detail, and a warrant for the amount of the total deductions withheld to CalSTRS as follows:

State Teachers' Retirement System
Attention: Cash Receipts Section
P. O. Box 15275, MS 12
Sacramento, CA 95851-0275

CalSTRS will process the data and return the diskettes for reuse on request.

When the receivable balance is within one payment of final payoff, CalSTRS will generate a letter to the employer informing them of the final amount to be withheld. When the receivable balance is zero, the System will generate a letter to the member and the employer stating payment is complete.

All voluntary receivable (tax deferred and non-tax deferred) deduction payments may be reported with the PC process. Deductions for mandatory receivables may also be reported using the PC process or may continue to be reported on the regular monthly report of contributions (F-496). If the PC process is used for all receivables, the employer will need to disconnect the receivable portion of the F-496 tape process completely. Otherwise, if the PC process is used only for the receivables that cannot be reported on the F-496, and the remaining receivables are reported on the F-496, the employer would need to make sure that no deductions are inadvertently reported on both the PC process and F-496.

If a district does not elect to offer tax deferred payroll deductions, the district may still use the reporting and payment process developed for tax deferred payroll deductions, or may continue to report payroll deductions in the regular report of monthly contributions (F-496).

Using This Directive As a Reference

This directive is intended to serve as a reference for the employers of CalSTRS members who elect to offer tax deferred payroll deductions. Please refer to it whenever any issues related to this program arise.

Contact

Please direct questions regarding this employer directive or the procedures to the CalSTRS Accounting Office, Receivables Unit, at (916) 229-3982 or e-mail the CalSTRS receivables unit at ar@calstrs.ca.gov.

JAMES D. MOSMAN
Chief Executive Officer

Attachments



IRREVOCABLE PAYROLL AUTHORIZATION
AC 0194 (Revised 03/2000)

Toll Free 1-800-228-5453
or (916) 229-3870
TDD Hearing Impaired (916) 229-3541

**PERMISSIVE INSTALLMENT PAYMENTS
IRREVOCABLE PAYROLL AUTHORIZATION**

A California State Teachers' Retirement System (CalSTRS) member, pursuant to statute, is permitted to redeposit member contributions previously withdrawn and/or elect to purchase permissive service credit. Any Amounts due may generally be paid by the member directly to the retirement system, or the member may request, and the employer may permit, deductions through payroll.

I understand that my employer has adopted a resolution under the "pickup" tax deferred provisions of Internal Revenue Code Section 414(h)(2) for payroll deduction and that tax deferral of my redeposit and/or purchase of permissive service requires this irrevocable payroll deduction authorization.

I hereby authorize and understand that this authorization is binding and irrevocable.

1. Deductions are to be made from my salary, for at total of _____ months in the amount of \$_____ per month. (These amounts may be changed but not terminated with prior authorization from CalSTRS, as long as the payment period does not exceed 120 months from the initial payment date).
2. These payments through payroll deduction are in addition to the required contributions to CalSTRS.
3. For the effective period of this agreement, payments are to be made by my employer. While this agreement is in effect, I understand that CalSTRS will only accept payment from my employer and not directly from me.
4. My employer is obligated to make payment pursuant to this agreement only if there are sufficient funds from my earnings to do so after any other mandatory deductions.
5. This agreement shall remain in effect only until:
a) payroll payments are completed, or b) termination of employment.
6. All payments must be made prior to retirement.

I UNDERSTAND THAT IF THE MONTHLY DEDUCTION AUTHORIZED IN THIS DOCUMENT BECOMES 120 DAYS DELINQUENT, CALSTRS WILL CANCEL THIS ELECTION AND REFUND ALL PAYMENTS RECEIVED TO THE EMPLOYER. THE EMPLOYER WILL THEN DISBURSE THESE FUNDS, SUBJECT TO TAX WITHHOLDINGS, TO THE UNDERSIGNED EMPLOYEE.

COUNTY NAME: _____

DISTRICT NAME: _____

BILLING TYPE CODE: _____ (from initial billing statement)

I authorize the above irrevocable payroll deductions under the conditions as specified.

EMPLOYEE NAME: _____

EMPLOYEE SOCIAL SECURITY NUMBER: _____

EMPLOYEE SIGNATURE: _____

DATE: _____

REDEPOSIT PAYROLL RESOLUTION

WHEREAS, Internal Revenue Code (IRC) Section 414(h)(2) permits employer “pickup” of the employee portion of contributions to a retirement plan, thereby resulting in tax deferral of employee contributions; and

WHEREAS, under the (California) State Teachers’ Retirement System (CalSTRS) plan conditions, members may be allowed to redeposit contributions previously withdrawn plus interest and/or purchase permissive service credit;

NOW THEREFORE, BE IT RESOLVED, that in order to permit tax deferral for these additional amounts, an employee shall enter into a binding irrevocable payroll deduction authorization and such employee shall not have the option of choosing to receive the amounts directly instead of having them paid by the employer to CalSTRS:

BE IT FURTHER RESOLVED, that additional amounts herein specified, through payroll deduction from salary, are designated as being picked up by the employer and paid by the employer in accordance with CalSTRS retirement plan requirements.

DISTRICT: _____

Approved by the Governing Board

DATE: _____

Secretary of the Governing Board

SIGNATURE: _____

DATE: _____